NEWCASTLE MUNICIPALITY

(Registration number KZ252)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

General Information

Mayor	Cllr EM Nkosi
Executive Committee	Cllr VV Bam
	Cllr RN Mdluli
	Cllr EJC Cronje
	Cllr RN Molelekoa
	Cllr M Shunmgam
	Cllr DP Sibiya(Deputy Mayor)
	Cllr NA Zwane
Councillors	Cllr SM Thwala
	Cllr LL Bosman
	Cllr MV Buhali
	Cllr SB Buthelezi
	Cllr TJC Danisa
	Cllr XNM Dladla
	Cllr BS Dlamini
	Cllr DX Dube
	Cllr FP Gama
	Cllr VF Hadebe
	Cllr TS Hlabisa
	Cllr A Khoza
	Cllr BV Khumalo
	Cllr VD Kubheka
	Cllr NP Kunene
	Cllr CY Liu
	Cllr NK Majozi
	Cllr FA Malinga
	Cllr NY Mbatha
	Cllr AM Mbuli
	Cllr AP Meiring
	Cllr SG Miya
	Cllr HN Mkhwanazi
	Cllr JCN Mkhwanazi
	Cllr TP Mkhwanazi
	Cllr MS Mlangeni
	Cllr NG Mnguni
	Cllr MV Molefe
	Cllr MV Mthembu
	Cllr PB Mwali
	Cllr VP Nzima
	Cllr TM Ndaba
	Cllr RB Ndima
	Cllr SS Ndlangamandla
	Cllr MS Ndlovu
	Cllr PF Ndlovu
	Cllr ME Ngcobo
	Cllr BC Ngema
	Cllr DR Ngema
	Cllr D Ngwenya
	Cllr CL Nhlapho
	Cllr SN Nkosi

General Information

	Cllr JB Nkwanazi Cllr TM Nzuza Cllr SE Shabangu Cllr DM Sibilwane Cllr LT Sikhosane Cllr SL Stein Cllr GMB Thwala Cllr LG Thwala Cllr MW Thwala Cllr JA Voster Cllr SA Yende Cllr MF Zikhali Cllr NS Zulu Cllr SJ Zulu Cllr SZ Zulu Cllr TM Zulu Cllr CS Kubheka Cllr BS Radebe
Grading of local authority	4
Accounting Officer	BE Mswane
Chief Finance Officer (CFO)	BE Hlongwe
Registered office	37 Murchison Street Newcastle 2940
Business address	37 Murchison Street Newcastle 2940
Postal address	Private Bag X 6621 Newcastle 2940
Bankers	First National Bank

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Banks of Southern Africa

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2018 and were signed on its behalf by:

Accounting Officer
Designation

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	9	12,401,043	15,223,528
Other financial assets	8	3,621	5,791
Receivables from exchange transactions	10	67,255,709	42,011,583
Receivables from non-exchange transactions	11	13,287,220	12,116,267
Consumer debtors from exchange transactions	12	473,099,574	372,834,942
Consumer debtors from non-exchange transactions	12	89,738,189	79,791,582
Cash and cash equivalents	13	57,464,870	50,507,758
		713,250,226	**572,491,451**
Non-Current Assets			
Investment property	3	379,856,000	365,272,000
Property, plant and equipment	4	6,737,474,644	7,043,978,481
Intangible assets	5	5,762,333	8,686,539
Heritage assets	6	7,468,510	6,991,102
Investments in associates	7	275,279,106	301,163,242
		7,405,840,593	**7,726,091,364**
Total Assets		**8,119,090,819**	**8,298,582,815**
Liabilities			
Current Liabilities			
Other financial liabilities	16	29,483,981	32,002,485
Finance lease obligation	14	233,511	168,853
Payables from exchange transactions	19	661,060,991	451,253,295
VAT payable	20	1,775,605	2,390,525
Consumer deposits	21	18,966,524	14,334,239
Unspent conditional grants and receipts	15	56,316,815	41,556,011
Defined Benefit Plan	17	7,997,613	6,215,831
		775,835,040	**547,921,239**
Non-Current Liabilities			
Other financial liabilities	16	402,570,627	447,215,530
Finance lease obligation	14	24,309	234,909
Defined Benefit Plan	17	145,207,202	128,168,731
Provision for Rehabilitation of Landifil site	18	31,292,755	31,217,649
		579,094,893	**606,836,819**
Total Liabilities		**1,354,929,933**	**1,154,758,058**
Net Assets		**6,764,160,886**	**7,143,824,757**
Reserves			
Housing Development fund		26,076,953	25,071,001
Self insurance reserve		472,159	530,020
Accumulated surplus		6,737,611,756	7,118,223,741
Total Net Assets		**6,764,160,868**	**7,143,824,762**

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Service charges	23	959,908,806	944,304,232
Rental of facilities and equipment	24	7,814,644	7,278,218
Sundry revenue	25	5,300,637	7,774,422
Other income	25	931,633	1,303,488
Fee income	25	11,118,686	7,696,457
Interest received	26	16,421,320	14,835,339
Property Rates	27	253,485,719	232,285,813
Government grants & subsidies	28	556,662,414	527,822,316
Fines		6,680,062	3,605,936
Gain on Actuarial Valuations		-	3,559,453
Total revenue		**1,818,323,921**	**1,750,465,674**
Expenditure			
Employee costs	29	564,523,295	495,757,667
Remuneration of councillors	30	23,149,262	20,388,761
Depreciation and amortisation	31	449,661,715	472,110,422
Impairment of assets	32	4,095,007	1,348,277
Finance costs	33	49,071,617	65,783,550
Debt Impairment	34	137,597,437	100,303,930
Collection costs		1,657,929	8,802,170
Bulk purchases	35	541,002,620	558,945,739
Contracted services	36	90,574,430	69,248,094
Loss on Actuarial Valuations		5,793,705	-
General Expenses	37	318,885,626	300,137,317
Total expenditure		**2,186,012,643**	**2,092,825,927**
Operating deficit		**(367,688,722)**	**(342,360,252)**
Share of deficit in investment in associates		(26,501,493)	(41,219,977)
Fair value adjustments to investment property		14,584,000	89,298,000
		(11,917,493)	**48,078,023**
Deficit for the year		**(379,606,215)**	**(294,282,229)**

Statement of Changes in Net Assets

Figures in Rand	Housing Development fund	Self Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2016	**26,037,234**	**708,555**	**26,745,789**	**7,424,242,101**	**7,450,987,890**
Changes in net assets					
Deficit for the year	-	-	-	(294,282,230)	(294,282,230)
Transfer from Housing Development Fund	(966,233)	-	(966,233)	966,233	-
Transfer from Self Insurance Reserve	-	(178,535)	(178,535)	178,535	-
Recognising Nedbank Deposit	-	-	-	375,174	375,174
Adjustments on assets	-	-	-	(557,222)	(557,222)
Prior Year Adjustment error (Refer note 43)	-	-	-	(12,698,850)	(12,698,850)
Total changes	(966,233)	(178,535)	(1,144,768)	(306,018,360)	(307,163,128)
Balance at 01 July 2017	**25,071,001**	**530,020**	**25,601,021**	**7,118,223,757**	**7,143,824,778**
Deficit for the year	-	-	-	(379,606,215)	(379,606,215)
Transfer to Housing Development	1,005,952	-	1,005,952	(1,005,952)	-
Transfer from Self Insurance Reserve	-	(57,861)	(57,861)	57,861	-
Prior year Adjustments on Assets	-	-	-	(57,695)	(57,695)
Total changes	1,005,952	(57,861)	948,091	(380,612,001)	(379,663,910)
Balance at 30 June 2018	**26,076,953**	**472,159**	**26,549,112**	**6,737,611,756**	**6,764,160,868**

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,059,522,113	1,077,201,316
Grants		571,242,725	536,797,337
Interest income		16,421,320	14,835,339
		1,647,186,158	1,628,833,992
Payments			
Employee costs and Councillors remuneration		(587,672,557)	(516,146,428)
Suppliers		(777,802,620)	(813,215,794)
Finance costs		(49,071,617)	(65,783,550)
		(1,414,546,794)	(1,395,145,772)
Net cash flows from operating activities	39	**232,639,364**	**233,688,220**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(178,368,024)	(219,374,430)
Purchase of other intangible assets	5	(4,879)	(26,590)
Purchases of Heritage Assets	6	-	(4,850)
Net cash flows from investing activities		**(178,372,903)**	**(219,405,870)**
Cash flows from financing activities			
Net movements in long term loans		(47,163,407)	(8,659,637)
Movement on finance lease		(145,942)	312,148
Net cash flows from financing activities		**(47,309,349)**	**(8,347,489)**
Net increase/(decrease) in cash and cash equivalents		**6,957,112**	**5,934,861**
Cash and cash equivalents at the beginning of the year		50,507,758	44,572,895
Cash and cash equivalents at the end of the year	13	**57,464,870**	**50,507,756**

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	991,996,882	7,005,213	999,002,095	959,908,806	(39,093,289)	Refer to Annexure E
Rental of facilities and equipment	8,074,599	(218,333)	7,856,266	7,814,644	(41,622)	
Profit on sale of Assets	2,000,000	-	2,000,000	-	(2,000,000)	
Other income	4,588,707	2,534,600	7,123,307	5,300,637	(1,822,670)	
Sundry sales	1,408,957	(265,891)	1,143,066	931,633	(211,433)	
Fee income	9,801,415	12,491,426	22,292,841	11,118,686	(11,174,155)	
Interest received	17,176,838	(335,104)	16,841,734	16,421,320	(420,414)	
Total revenue from exchange transactions	1,035,047,398	21,211,911	1,056,259,309	1,001,495,726	(54,763,583)	
Revenue from non-exchange transactions						
Property rates	264,325,097	(7,283,592)	257,041,505	253,485,719	(3,555,786)	Refer to Annexure E
Transfer revenue						
Government grants & subsidies	345,790,000	33,216,245	379,006,245	556,662,414	177,656,169	
Fines, Penalties and Forfeits	5,203,136	369,194	5,572,330	6,680,062	1,107,732	
Total revenue from non-exchange transactions	615,318,233	26,301,847	641,620,080	816,828,195	175,208,115	
Total revenue	1,650,365,631	47,513,758	1,697,879,389	1,818,323,921	120,444,532	
Expenditure						
Employee costs	(514,737,492)	(3,742,110)	(518,479,602)	(564,523,295)	(46,043,693)	Refer to Annexure E
Remuneration of councillors	(23,219,286)	-	(23,219,286)	(23,149,262)	70,024	
Depreciation and amortisation	(247,894,714)	(246,346,590)	(494,241,304)	(449,661,715)	44,579,589	
Impairment loss/ Reversal of impairments	-	-	-	(4,095,007)	(4,095,007)	
Finance costs	(47,155,450)	(192,320)	(47,347,770)	(49,071,617)	(1,723,847)	
Debt Impairment	(101,807,371)	(52,858,576)	(154,665,947)	(137,597,437)	17,068,510	
Collection costs	(5,700,000)	2,230,000	(3,470,000)	(1,657,929)	1,812,071	
Bulk purchases	(579,385,013)	5,008,695	(574,376,318)	(541,002,620)	33,373,698	
Contracted Services	(33,821,492)	(44,102,435)	(77,923,927)	(90,574,430)	(12,650,503)	
General Expenses	(191,706,738)	(29,452,058)	(221,158,796)	(318,885,626)	(97,726,830)	
Loss on Actuarial Valuations	-	-	-	(5,793,705)	(5,793,705)	
Total expenditure	(1,745,427,556)	(369,455,394)	(2,114,882,950)	(2,186,012,643)	(71,129,693)	
Operating deficit	(95,061,925)	(321,941,636)	(417,003,561)	(367,688,722)	49,314,839	
Share of Surplus/Deficit of Investment in Associates	-	-	-	(26,501,493)	(26,501,493)	
Fair value adjustment to investment property	-	-	-	14,584,000	14,584,000	
	-	-	-	(11,917,493)	(11,917,493)	

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Deficit before taxation	**(95,061,925)**	**(321,941,636)**	**(417,003,561)**	**(379,606,215)**	**37,397,346**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(95,061,925)**	**(321,941,636)**	**(417,003,561)**	**(379,606,215)**	**37,397,346**	

Newcastle Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	13,648,260	1,017,521	14,665,781	12,401,043	(2,264,738)	Refer to Annexure E
Other financial assets	3,602	-	3,602	3,621	19	
Receivables from exchange transactions	31,162,167	-	31,162,167	67,255,709	36,093,542	
Receivables from non-exchange transactions	62,012,000	-	62,012,000	13,287,220	(48,724,780)	
Consumer debtors	163,022,468	95,720,532	258,743,000	562,837,762	304,094,762	
Cash and cash equivalents	47,287,518	(47,115,427)	172,091	57,464,870	57,292,779	
	317,136,015	49,622,626	366,758,641	713,250,225	346,491,584	
Non-Current Assets						
Investment property	281,493,480	83,774,000	365,267,480	379,856,000	14,588,520	
Property, plant and equipment	7,005,862,450	(92,162,000)	6,913,700,450	6,737,474,644	(176,225,806)	
Intangible assets	6,877,022	326,554	7,203,576	5,762,333	(1,441,243)	
Heritage assets	6,025,447	966,102	6,991,549	7,468,510	476,961	
Investments in associates	346,321,389	(45,157,758)	301,163,631	275,279,106	(25,884,525)	
	7,646,579,788	(52,253,102)	7,594,326,686	7,405,840,593	(188,486,093)	
Total Assets	7,963,715,803	(2,630,476)	7,961,085,327	8,119,090,818	158,005,491	
Liabilities						
Current Liabilities						
Other financial liabilities	32,002,485	-	32,002,485	29,483,981	(2,518,504)	
Finance lease obligation	-	-	-	233,511	233,511	
Payables from exchange transactions	150,101,125	85,176,320	235,277,445	661,060,991	425,783,546	
VAT payable	-	-	-	1,775,605	1,775,605	
Consumer deposits	13,477,882	2,740,324	16,218,206	18,966,524	2,748,318	
Unspent conditional grants and receipts	10,000,000	(10,000,000)	-	56,316,815	56,316,815	
Defined Benefit Plan	6,455,301	(155,122)	6,300,179	7,997,613	1,697,434	
	212,036,793	77,761,522	289,798,315	775,835,040	486,036,725	
Non-Current Liabilities						
Other financial liabilities	397,125,000	-	397,125,000	402,570,627	5,445,627	
Finance lease obligation	-	-	-	24,309	24,309	
Defined Benefit Plan	109,159,779	19,008,731	128,168,510	145,207,202	17,038,692	
Provision for Rehabilitation of Landifil site	28,423,638	2,793,649	31,217,287	31,292,755	75,468	
	534,708,417	21,802,380	556,510,797	579,094,893	22,584,096	
Total Liabilities	746,745,210	99,563,902	846,309,112	1,354,929,933	508,620,821	
Net Assets	7,216,970,593	(102,194,378)	7,114,776,215	6,764,160,885	(350,615,330)	

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Housing Development Fund	27,492,477	(1,861,420)	25,631,057	26,076,953	445,896	
Insurance reserve	1,056,047	(592,843)	463,204	472,159	8,955	
Accumulated surplus	7,188,422,069	(99,740,115)	7,088,681,954	6,737,611,751	(351,070,203)	
Total Net Assets	**7,216,970,593**	**(102,194,378)**	**7,114,776,215**	**6,764,160,863**	**(350,615,352)**	

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods	1,085,350,364	(17,301,357)	1,068,049,007	1,059,522,113	(8,526,894)	
Grants	580,132,000	(4,967,627)	575,164,373	571,242,725	(3,921,648)	
Interest received	8,372,802	1,001,277	9,374,079	16,421,320	7,047,241	
	1,673,855,166	**(21,267,707)**	**1,652,587,459**	**1,647,186,158**	**(5,401,301)**	
Payments						
Employee costs and payments to suppliers	(1,335,927,214)	-	(1,335,927,214)	(1,365,475,177)	(29,547,963)	
Finance costs	(47,135,450)	(212,320)	(47,347,770)	(49,071,617)	(1,723,847)	
	(1,383,062,664)	**(212,320)**	**(1,383,274,984)**	**(1,414,546,794)**	**(31,271,810)**	
Net cash flows from operating activities	**290,792,502**	**(21,480,027)**	**269,312,475**	**232,639,364**	**(36,673,111)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(253,778,405)	-	(253,778,405)	(178,368,024)	75,410,381	
Proceeds from sale of property, plant and equipment	2,000,000	-	2,000,000	-	(2,000,000)	
Purchase of other intangible assets	-	-	-	(4,879)	(4,879)	
Net cash flows from investing activities	**(251,778,405)**	-	**(251,778,405)**	**(178,372,903)**	**73,405,502**	
Cash flows from financing activities						
Movement in long term loans	(32,002,485)	-	(32,002,485)	(47,163,407)	(15,160,922)	
Finance lease payments	-	-	-	(145,941)	(145,941)	
Net cash flows from financing activities	**(31,738,485)**	**1,620,085**	**(30,118,400)**	**(47,309,348)**	**(145,941)**	
Net increase/(decrease) in cash and cash equivalents	7,275,612	(19,859,942)	(12,584,330)	6,957,112	36,586,450	
Cash and cash equivalents at the beginning of the year	40,012,000	10,495,758	50,507,758	50,507,758	-	
Cash and cash equivalents at the end of the year	**47,287,612**	**(9,364,184)**	**37,923,428**	**57,464,870**	**36,586,450**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	264,325,097	(7,283,592)	257,041,505	-		257,041,505	253,485,719		(3,555,786)	99 %	96 %
Service charges	991,996,882	7,005,213	999,002,095	-		999,002,095	959,908,806		(39,093,289)	96 %	97 %
Investment revenue	17,176,838	(335,104)	16,841,734	-		16,841,734	16,421,320		(420,414)	98 %	96 %
Transfers recognised - operational	345,790,000	33,216,245	379,006,245	-		379,006,245	556,662,414		177,656,169	147 %	161 %
Other own revenue	31,076,814	14,910,996	45,987,810	-		45,987,810	31,845,662		(14,142,148)	69 %	102 %
Total revenue (excluding capital transfers and contributions)	**1,650,365,631**	**47,513,758**	**1,697,879,389**	-		**1,697,879,389**	**1,818,323,921**		**120,444,532**	**107 %**	**110 %**
Employee costs	(514,737,492)	(3,742,110)	(518,479,602)	-	-	(518,479,602)	(564,523,295)	-	(46,043,693)	109 %	110 %
Remuneration of councillors	(23,219,286)	-	(23,219,286)	-	-	(23,219,286)	(23,149,262)	-	70,024	100 %	100 %
Debt impairment	(101,807,371)	(52,858,576)	(154,665,947)			(154,665,947)	(137,597,437)	-	17,068,510	89 %	135 %
Depreciation and asset impairment	(247,894,714)	(246,346,590)	(494,241,304)			(494,241,304)	(449,661,715)	-	44,579,589	91 %	181 %
Finance charges	(47,155,450)	(192,320)	(47,347,770)	-	-	(47,347,770)	(49,071,617)	-	(1,723,847)	104 %	104 %
Materials and bulk purchases	(579,385,013)	5,008,695	(574,376,318)	-	-	(574,376,318)	(541,002,620)	-	33,373,698	94 %	93 %
Other expenditure	(231,228,230)	(71,324,493)	(302,552,723)	-	-	(302,552,723)	(421,006,697)	-	(118,453,974)	139 %	182 %
Total expenditure	**(1,745,427,556)**	**(369,455,394)**	**(2,114,882,950)**	-	-	**(2,114,882,950)**	**(2,186,012,643)**	-	**(71,129,693)**	**103 %**	**125 %**
Surplus/(Deficit)	**(95,061,925)**	**(321,941,636)**	**(417,003,561)**	-		**(417,003,561)**	**(367,688,722)**		**49,314,839**	**88 %**	**387 %**
Share of surplus (deficit) of associate	-	-	-	-		-	26,501,493		26,501,493	DIV/0 %	DIV/0 %
Fair value adjustment	-	-	-	-		-	(14,584,000)		(14,584,000)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**(95,061,925)**	**(321,941,636)**	**(417,003,561)**	-		**(417,003,561)**	**(379,606,215)**		**37,397,346**	**91 %**	**399 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	290,792,502	(21,480,027)	269,312,475	-		269,312,475	232,639,364		(36,673,111)	86 %	80 %
Net cash from (used) investing	(251,778,405)	-	(251,778,405)	-		(251,778,405)	(178,372,903)		73,405,502	71 %	71 %
Net cash from (used) financing	(31,738,485)	1,620,085	(30,118,400)	-		(30,118,400)	(47,309,349)		(17,190,949)	157 %	149 %
Net increase/(decrease) in cash and cash equivalents	**7,275,612**	**(19,859,942)**	**(12,584,330)**	-		**(12,584,330)**	**6,957,112**		**19,541,442**	**(55)%**	**96 %**
Cash and cash equivalents at the beginning of the year	40,012,000	10,495,758	50,507,758	-		50,507,758	50,507,758		-	100 %	126 %
Cash and cash equivalents at year end	**47,287,612**	**(9,364,184)**	**37,923,428**	-		**37,923,428**	**57,464,870**		**(19,541,442)**	**152 %**	**122 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. The basis presume that the funds will be available to finance future operations and that realisation of.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.4 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Computer software	Straight line	5 years
Infrastructure	Straight line	7-80 years
Community	Straight line	5-80 Years
Other property, plant and equipment	Straight line	5-10 Years
Heritage	Straight line	Infinite

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.7 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control over those policies. The municipality exercise judgment in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures of financial instruments depending on the nature of the retained investment.

The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statements of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method. Where the reporting period of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality. Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

Accounting Policies

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.9 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.9 Financial instruments (continued)

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial Instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

Accounting Policies

1.9 Financial instruments (continued)

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.11 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.12 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

1.14 Impairment of non-cash-generating assets (continued)

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent the the municipality has complied with any of the criteria, condition or obligation embodied in the agreement, to the extent the the criteria, condition or obligation have not been met a liability is recognised.

1.17 Budget Information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts

1.18 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

Accounting Policies

1.19 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

1.19 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

1.19 Provisions and contingencies (continued)

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.21 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.21 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Self Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

"irregular expenditure", in relation to a municipality or municipal entity, means—

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.27 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 Capital Committement

Capital commitments are approved and contracted for when the tender is awarded to the contractor and valid contracts has been signed by both the Accounting Officer and the contractor.

Capital commitments are approved but not yet contracted for are those capital projects that are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process.

1.29 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.30 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.
Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.
Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.
Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

1.31 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.32 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, material and overhead, if appropriate.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34 Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35 Consolidated Fiancial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36 Investment In Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 37 Joint Arramgements	01 April 2019	Unlikely there will be a material impact
• GRAP 38 Disclosure of Interest in Other Entities	01 April 2019	Unlikely there will be a material impact
• GRAP 108 Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact

3. Investment property

	2018			2017		
	Fair Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Fair Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	379,856,000	-	379,856,000	365,272,000	-	365,272,000

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	365,272,000	14,584,000	379,856,000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	275,974,000	89,298,000	365,272,000

3. Investment property (continued)

Details of valuation

The effective date of the revaluations was 30 June 2018. Revaluations were performed by an independent valuer, Abubaker Rahim, of Evaluations Property Intelligence.

The valuation was based on open market value for existing use.

The value for municipal properties is, totaling R 379,856,000 (2017: R 365,272,000).
Investment property values were adjusted by the fair value adjustment of R 89 598 000.00 which was recognised in the surplus and deficit for the current year.

Amounts recognised in surplus and deficit for the year.

	2018	2017
Rental revenue from investment property	-	89,298,000

Investment property located in (a foreign country: specify) is governed by that country's exchange controls and therefore the rental income and proceeds from any sale of that investment property are not available to the municipality:

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in Progress	Revaluations	Other changes, movements	Depreciation	Total
Land	49,586,371	-	-	75,106	441,000	(1,852,829)	48,249,648
Buildings	400,470,548	-	-	-	11,235,366	(13,838,733)	397,867,181
Infrastructure	6,345,331,411	-	165,093,800	-	(11,404,928)	(406,201,123)	6,092,819,160
Community	138,655,557	-	10,759,322	-	(345,899)	(3,839,433)	145,229,547
Finance lease assets	277,097	36,495	-	-	-	(270,817)	42,775
Other property, plant and equipment	109,657,499	2,179,306	330,718	-	(38,153,276)	(20,747,914)	53,266,333
	7,043,978,483	**2,215,801**	**176,183,840**	**75,106**	**(38,227,737)**	**(446,750,849)**	**6,737,474,644**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in Progress	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	48,096,501	-	-	218,000	1,562,349	-	(290,479)	49,586,371
Buildings	44,664,740	-	-	369,626,289	-	(34,736)	(13,785,745)	400,470,548
Infrastructure	6,613,034,850	-	35,512,527	137,818,780	-	(13,669,050)	(427,365,696)	6,345,331,411
Community	133,118,733	101,100	6,419,990	1,490,257	-	1,112,631	(3,587,154)	138,655,557
Finance lease assets	91,160	467,136	-	-	-	(15,148)	(266,051)	277,097
Other property, plant and equipment	514,823,866	1,365,997	(405,527,016)	23,437,893	-	-	(24,443,241)	109,657,499
	7,353,829,850	**1,934,233**	**(363,594,499)**	**532,591,219**	**1,562,349**	**(12,606,303)**	**(469,738,366)**	**7,043,978,483**

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	253,303,589	39,356,071	39,115,679	331,775,339
Prior year error	(44,528,722)	-	-	(44,528,722)
Transfer to Heritage Assets	-	(477,408)	477,408	-
Transfer to Buildings	(2,921,039)	-	2,921,039	-
Additions	165,093,800	10,759,322	330,718	176,183,840
Other Movements	(8,813,531)	109,100	-	(8,704,431)
Transfer to completed assets	(117,705,782)	(7,258,003)	(42,844,844)	(167,808,629)
	244,428,315	42,489,082	-	286,917,397

Items Making up - Other	Building	Land	Heritage	Exclusions	Other	Total
Opening Balance	8,014,087	441,000	-	30,046,420	614,172	39,115,679
Additions	300,240	-	-	-	30,477	330,718
Transfer In	2,921,039	-	477,408	-	-	3,398,446
Transfered to completed Assets	(11,235,366)	(441,000)	(477,408)	(30,046,420)	(644,649)	(42,844,843)
	-	-	-	-	-	-

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	217,791,061	32,936,080	444,642,695	695,369,836
Additions/capital expenditure	194,770,922	7,932,162	14,804,368	217,507,452
Other movements [specify]	(22,261,589)	(145,411)	(24,359,227)	(46,766,227)
Transferred to completed items	(136,996,805)	(1,366,761)	(395,972,157)	(534,335,723)
	253,303,589	39,356,070	39,115,679	331,775,338

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance	2018	2017
Building Maintanance	9,676,804	8,412,696
Infrastructure Mantainance	84,128,884	74,935,233
Land Maintanance	1,332,410	1,053,723
Other Maintanance	13,862,368	6,512,139
	109,000,466	90,913,791

5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15,466,615	(9,704,282)	5,762,333	15,709,437	(7,022,898)	8,686,539

Figures in Rand	2018	2017

5. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	8,686,539	4,879	(18,219)	(2,910,866)	5,762,333

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	11,153,997	26,590	472,599	(2,966,647)	8,686,539

6. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	7,468,510	-	7,468,510	6,991,102	-	6,991,102

Reconciliation of heritage assets 2018

	Opening balance	Transfers	Total
Museums, painting and artifacts	6,991,102	477,408	7,468,510

Reconciliation of heritage assets 2017

	Opening balance	Additions	Transfers	Total
Museums, painting and artifacts	6,326,820	4,850	659,432	6,991,102

7. Investments in associates

Name of entity	Listed / Unlisted	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Uthukela Water		34.00 %	34.00 %	275,279,106	301,163,242

The carrying amounts of associates are shown net of impairment losses.

8. Other financial assets

	2018	2017
At amortised cost		
Stand debtors	3,621	5,791

9. Inventories

	2018	2017
Water stock	297,936	309,780
Consumable stores	12,498,501	15,302,205
	12,796,437	15,611,985
Provision for impairment of inventory	(395,394)	(388,457)
	12,401,043	15,223,528

10. Receivables from exchange transactions

	2018	2017
Deposits (Eskom and Nedbank Building)	3,236,990	2,902,309
Sundry debtors	4,108,395	2,488,837
Other receivables	59,910,324	36,620,437
	67,255,709	42,011,583

11. Receivables from non-exchange transactions

	2018	2017
Fines (Gross balance)	43,305,673	38,046,650
Less: Provision for impairment	(30,018,459)	(25,930,389)
	13,287,214	12,116,261

Reconsilliation of Fines

	2018	2017
Opening balance	38,046,650	36,143,121
Add: Fines recognised	6,649,903	3,578,370
Less: Fines received	(1,390,880)	(1,674,841)
	43,305,673	38,046,650

Reconsilliation for Provision of Impairment

	2018	2017
Opening balance	25,930,389	25,003,355
Add: Contribution to provision for impairment	4,088,070	927,035
	30,018,459	25,930,390

Receivables from non-exchange transactions impaired

	2018	2017
Opening balance	25,930,389	25,003,354
Add: Contribution for Impairment	4,088,070	927,035

Fines Revenue recognised in surplus comprises of:

	2018	2017
Traffic fines	6,649,903	3,578,481
Other fines	-	27,455

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors

Gross balances		
Rates	219,245,987	182,949,268
Electricity	160,452,992	119,583,512
Water	324,730,469	263,752,049
Sewerage	233,186,075	191,803,992
Refuse	106,517,979	86,291,130
Other	68,131,119	60,537,142
VAT and sundry services	222,959,758	213,543,913
	1,335,224,379	**1,118,461,006**
Less: Allowance for impairment		
Rates	(129,507,799)	(103,157,686)
Electricity	(12,677,391)	(8,602,458)
Water	(216,626,498)	(177,057,641)
Sewerage	(175,744,465)	(143,313,052)
Refuse	(75,558,118)	(63,912,098)
Other	(44,601,524)	(42,389,237)
VAT and sundry services	(117,670,822)	(127,402,310)
	(772,386,617)	**(665,834,482)**
Net balance		
Rates	89,738,189	79,791,582
Electricity	147,775,601	110,981,054
Water	108,103,971	86,694,408
Sewerage	57,441,610	48,490,940
Refuse	30,959,861	22,379,032
Other	23,529,595	18,147,905
VAT and sundry services	105,288,936	86,141,603
	562,837,763	**452,626,524**
Included in above is receivables from exchange transactions		
Electricity	160,452,992	119,583,512
Water	324,730,469	263,752,049
Sewerage	233,186,075	191,803,992
Refuse	106,517,979	86,291,130
Other	68,131,119	60,537,142
VAT and sundry services	222,959,758	213,543,913
	1,115,978,392	**935,511,738**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	219,245,987	182,949,268
Total	**1,335,224,379**	**1,118,461,006**
Rates		
Current (0 -30 days)	24,426,648	24,881,019
31 - 60 days	6,447,508	5,043,718
61 - 90 days	5,768,311	4,932,140
91 - 120 days	5,060,071	4,633,373
121 - 365 days	4,755,346	5,269,751
> 365 days	172,788,103	138,189,267
	219,245,987	**182,949,268**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	73,067,086	104,160,410
31 - 60 days	852,401	762,361
61 - 90 days	653,793	631,370
91 - 120 days	506,539	558,596
121 - 365 days	378,265	485,501
> 365 days	84,994,908	12,985,274
	160,452,992	**119,583,512**
Water		
Current (0 -30 days)	21,395,903	31,216,703
31 - 60 days	9,128,760	7,161,260
61 - 90 days	8,697,217	6,126,944
91 - 120 days	8,298,783	6,064,107
121 - 365 days	7,813,874	6,315,072
> 365 days	269,395,932	206,867,962
	324,730,469	**263,752,048**
Sewerage		
Current (0 -30 days)	14,387,186	10,439,202
31 - 60 days	5,396,722	4,242,583
61 - 90 days	4,890,347	4,258,808
91 - 120 days	4,487,301	3,979,708
121 - 365 days	4,366,589	3,960,908
> 365 days	199,657,929	164,922,784
	233,186,074	**191,803,993**
Refuse		
Current (0 -30 days)	9,962,354	5,592,409
31 - 60 days	3,449,409	1,976,482
61 - 90 days	3,031,609	1,834,413
91 - 120 days	2,282,395	1,778,170
121 - 365 days	2,186,052	1,760,805
> 365 days	85,606,160	73,348,850
	106,517,979	**86,291,129**
VAT and Sundries		
Current (0 -30 days)	8,729,355	9,929,244
31 - 60 days	3,134,070	2,517,040
61 - 90 days	3,014,070	2,144,678
91 - 120 days	2,820,126	2,016,279
121 - 365 days	3,631,927	1,902,742
> 365 days	201,630,211	195,033,931
	222,959,759	**213,543,914**
Other (specify)		
Current (0 -30 days)	1,614,870	4,868,664
31 - 60 days	1,299,940	1,626,329
61 - 90 days	1,430,469	1,130,233
91 - 120 days	1,457,057	1,049,936
121 - 365 days	1,186,336	1,014,509
> 365 days	61,142,447	50,847,401
	68,131,119	**60,537,072**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	158,618,572	159,068,003
31 - 60 days	26,726,514	19,771,685
61 - 90 days	24,607,493	18,242,338
91 - 120 days	22,147,115	17,420,913
121 - 365 days	20,565,304	17,569,143
> 365 days	907,547,663	725,290,540
	1,160,212,661	957,362,622
Less: Allowance for impairment	(718,087,742)	(614,950,856)
	442,124,919	**342,411,766**

Industrial/ commercial		
Current (0 -30 days)	56,707,944	47,355,956
31 - 60 days	2,234,877	2,206,806
61 - 90 days	2,166,983	1,842,568
91 - 120 days	1,987,982	1,890,021
121 - 365 days	1,934,196	1,666,461
> 365 days	59,528,716	58,090,606
	124,560,698	113,052,418
Less: Allowance for impairment	(54,298,875)	(50,883,624)
	70,261,823	**62,168,794**

National and provincial government		
Current (0 -30 days)	(14,638)	5,356,164
31 - 60 days	747,420	1,351,282
61 - 90 days	711,294	973,680
91 - 120 days	777,176	769,235
121 - 365 days	1,818,888	1,473,684
> 365 days	46,410,878	38,121,921
	50,451,018	**48,045,966**

Total		
Current (0 -30 days)	215,311,878	211,780,122
31 - 60 days	29,708,811	23,329,773
61 - 90 days	27,485,770	21,058,586
91 - 120 days	24,912,273	20,080,169
121 - 365 days	24,318,388	20,709,287
> 365 days	1,013,485,756	821,503,066
	1,335,222,876	1,118,461,003
Less: Allowance for impairment	(772,385,114)	(665,834,479)
	562,837,762	**452,626,524**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(665,834,480)	(596,316,891)
Contributions to allowance	(106,552,137)	(69,517,589)
	(772,386,617)	**(665,834,480)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	445,432	989,523
Bank balances	9,612,485	19,732,952
Short-term investments	47,406,953	29,785,283
	57,464,870	**50,507,758**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
FNB - 53140035974	3,549,379	13,082,957	4,338,099	9,612,485	19,732,952	6,539,737
FNB - 53140063149	6,063,106	6,649,995	2,201,638	-	-	-
Total	**9,612,485**	**19,732,952**	**6,539,737**	**9,612,485**	**19,732,952**	**6,539,737**

Call Investments	2018	2017
Standard Bank - 68450354/015	964,057	903,090
Standard Bank - 68450354/016	21,631,574	15,409,490
Standard Bank - 68450354/035	77,670	5,726,142
Standard Bank - 68450354/036	44,677	972,374
Standard Bank - 68450354/037	18,599,892	-
Standard Bank - 68450354/038	1,076,294	-
Standard Bank - 68450354/039	1,773,159	-
ABSA - 9288456248	2,866,231	6,366,719
ABSA - 9300506428	373,397	312,151
Glacier/Sanlam - 002246107	-	95,316
	47,406,951	**29,785,282**

Interest Income	2018	2017
Interest on primary account	1,868,016	1,812,746
Interest on investments accounts	2,955,672	2,689,863
	4,823,688	**4,502,609**

14. Finance lease obligation

Minimum lease payments due	2018	2017
- within one year	233,511	168,853
- in second to fifth year inclusive	24,309	234,909
Present value of minimum lease payments	**257,820**	**403,762**

Present value of minimum lease payments due	2018	2017
- within one year	233,511	168,853
- in second to fifth year inclusive	24,309	234,909
	257,820	**403,762**

	2018	2017
Non-current liabilities	24,309	234,909
Current liabilities	233,511	168,853
	257,820	**403,762**

Figures in Rand	2018	2017

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sport and Recreation	8,761	-
Ingogo Fresh Produce	11,353	11,353
Grant Skills Development	3,070,800	3,683,700
Cleanest town	823,975	823,975
Environmental Management Framework	502,871	1,352,871
Neighbourhood Development Partnership	12,118,797	709,291
Electrification Grant	-	650,918
Water Services Operating & Masification Subsidies	11,000,000	-
Osizweni Art Centre	36,920	36,920
Housing Osizweni Sec E	4,266,813	4,266,813
Newcastle Airport	1,815,281	272,568
Capacity Building housing	8,414,666	6,693,870
Fort Amiel Museum	192,868	300,026
Corridor Development	131,075	131,075
Carnegie Art Gallery	279,871	169,703
Provincialisation - Libraries	13,642,765	22,452,928
	56,316,816	**41,556,011**

16. Financial liabilities

At amortised cost		
DBSA loans	168,106,644	190,373,404
ABSA Bank loans	263,947,965	288,844,611
	432,054,609	**479,218,015**
	432,054,609	**479,218,015**
Non-current liabilities		
At amortised cost	402,570,627	447,215,530
Current liabilities		
At amortised cost	29,483,981	32,002,485

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Defined Benefit Plan

Reconciliation of defined benefit plan - 2018

	Opening Balance	Current Service Cost	Benefits Paid	Actuarial Loss/(Gain)	Interest Cost	Total
Employee benefits	134,384,562	6,876,879	(6,215,831)	5,793,705	12,365,500	153,204,815

Reconciliation of defined benefit plan - 2017

	Opening Balance	Current Service Cost	Benefits Paid	Acturial Loss/(Gain)	Interest Cost	Total
Employee benefits	125,850,731	6,844,303	(5,775,189)	(3,559,453)	11,024,170	134,384,562

	2018	2017
Non-current liabilities	145,207,202	128,168,731
Current liabilities	7,997,613	6,215,831
	153,204,815	134,384,562

Health Care Benefit		
Balance at the beginning of the year	111,427,422	104,882,523
Current service cost	4,644,695	4,685,360
Benefits paid	(4,073,667)	(3,364,428)
Actuarial loss/(gain)	3,562,018	(4,103,683)
Interest	10,509,423	9,327,650
	126,069,891	111,427,422

Net expense recognised in Statement of Financial Perfomance		
Current service cost	4,644,695	4,685,360
Benefits paid	(4,073,667)	(3,364,428)
Actuarial loss/(gain)	3,562,018	(4,103,683)
Interest	10,509,423	9,327,650
	14,642,469	6,544,899

Long Service Bonus Award		
Balance at the begining of the year	22,957,138	20,968,206
Current service cost	2,232,184	2,158,943
Benefits paid	(2,142,164)	(2,410,761)
Actuarial loss/9gain)	2,231,687	544,230
Interest	1,856,077	1,696,520
	27,134,922	22,957,138

Net expense recognised in Statement of Financial Performance		
Current service costs	2,232,184	2,158,943
Benefits paid	(2,142,164)	(2,410,761)
Actuarial loss/(gain)	2,231,687	544,230
Interest	1,856,077	1,696,520
	4,177,784	1,988,932

Employee benefit cost provision: Assumption

17. Defined Benefit Plan (continued)

Health Care Benefits
The municipality provides certain post retirements medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2018 by One Pangaea Financials, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post-retirement medical benefits are provided by the municipality.

Key financial assumptions used	
Discount rate	9.60%
Health care cost inflation rate	7.90%
Net effective discount rate	1.58%
Unfunded Accrued Liability	R126 069 891

Current-service and Interest Costs

Year ended 30 June 2018	R4 644 695
Interest Cost	R10 509 423
Actuarial (Gain)/Loss Recognized in Surplus/Deficit	R3 562 018

Long service Bonus Awards
The long service bonus award is a function of accumulated leave days that is converted into cash in the year the employee attains the service eligible for an award at a rate of 1/251 of annual salary per day.

Key financial assumptions used	
Discount rate	8.92%
General Salary Inflation	6.44%
Net effective discount rate	2.33%

The salaries used in the valuation include an assumed increase on 1 July 2018 of 7% as per the 2018/19 Newcastle Municipality approved budget. .

Key Demographic Assumptions used

Average retirement age	63		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55+	2%	2%

Unfunded Accrued Liability	
Total value of liabilities	R27 134 922
Value of Assets	R0
Unfunded Accrued Liabilities	R27 134 922

Current service and Interest Costs	
Current Cost	R2 232 184
Interest Cost	R1 856 077

Comparative of Vital Statistics	
Number of eligible employees	1352
Average annual salary	R222 285
Salary-weighted average age	43.9
Salary-weighted average past service	11.5

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Provision for Rehabilitation of Landifil site

The movement in thr provision is reconsiled as follows;

Balance at the beginning of year	31,217,650	26,814,753
Decrease/increase in provision	75,105	1,562,349
Finance charges recognised	-	2,840,548
	31,292,755	31,217,650

19. Payables from exchange transactions

Trade payables	387,420,111	236,861,867
Retentions	38,193,658	36,507,137
Output VAT on levies	129,467,656	93,635,343
Stale cheques written back	743,585	782,697
Leave pay provision	52,822,399	35,456,138
Bonus provision	14,079,781	9,057,778
Other payables	38,333,801	38,952,335
	661,060,991	451,253,295

20. VAT payable

Tax refunds payables	1,775,605	2,390,525

21. Consumer deposits

Consumers - Electricity	18,595,636	14,038,053
Hall Deposits	321,670	246,538
Housing Deposits	49,218	49,648
	18,966,524	14,334,239

22. Revenue

Service charges	959,908,806	944,304,232
Rental of facilities and equipment	7,814,644	7,278,218
Other income	5,300,637	7,774,422
Sundry sales	931,633	1,303,488
Fee income	11,118,686	7,696,457
Interest received	16,421,320	14,835,339
Property rates	253,485,719	232,285,813
Government grants & subsidies	556,662,414	527,822,316
Fines, Penalties and Forfeits	6,680,062	3,605,936
Gain on Acturial valuations	-	3,559,453
	1,818,323,921	1,750,465,674

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	959,908,806	944,304,232
Rental of facilities and equipment	7,814,644	7,278,218
Other income	5,300,637	7,774,422
Sundry sales	931,633	1,303,488
Fee income	11,118,686	7,696,457
Interest received - investment	16,421,320	14,835,339
	1,001,495,726	983,192,156

Figures in Rand	2018	2017

27. Property rates

Rates received

Residential	136,465,813	127,683,676
Commercial	117,759,899	110,594,211
State	5,336,507	2,614,459
Specialised Non-market	533,280	3,103,777
Vacant land	15,655,740	16,512,960
Agriculture	4,187,246	3,035,583
Less: Income forgone	(26,452,767)	(31,258,853)
	253,485,718	**232,285,813**

Valuations

Residential	13,085,895,000	13,234,336,000
Commercial	5,576,274,000	4,202,753,000
State	979,021,000	2,113,204,000
Vacant	313,705,500	490,221,200
Specialised non-market	325,020,900	1,494,199,900
Agriculture	2,488,811,000	1,298,592,804
Unratable properties	278,610,000	627,139,900
	23,047,337,400	**23,460,446,804**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Government grants and subsidies

Operating grants

	2018	2017
Equitable share	318,176,000	306,952,000
Newcastle library internet project	188,000	195,818
Finance management grant	1,700,000	1,625,000
Skills development grant	612,900	105,300
Expanded Public Works programme incentive	4,166,000	3,173,000
Neighbourhood development partnership	22,648,494	27,613,709
Electrification grant	9,650,918	7,349,082
Corridor development	-	16,910,506
Municipal infrastructure grant	114,604,000	109,214,000
Ingogo Fresh Produce	-	1,091,564
IT Tirelo Bosha Project	850,000	-
Madadeni library internet project	188,000	202,811
Municipal Water Infrastructure Grant	45,000,000	40,613,000
Osizweni library internet project	188,000	204,288
Provincialisation- All Libraries	14,733,163	5,964,820
Capacity building Housing	5,195,944	5,991,100
Carnegie Art Gallery	89,832	522,680
Fort Amiel Museum	257,158	-
Newcastle Airport	17,533,271	93,640
Sport and recreation	880,739	-
	556,662,419	527,822,318

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2018	2017
Conditional grants received	318,176,000	306,952,000
Unconditional grants received	238,486,418	220,870,318
	556,662,418	527,822,318

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Reconsilliation of Equitable share

	2018	2017
Equitable share received	318,176,000	306,952,000

Municipal Infrastructure Grant

	2018	2017
Current-year receipts	114,604,000	109,214,000
Conditions met - transferred to revenue	(114,604,000)	(109,214,000)
	-	-

Municipal Systems Improvement Grant

	2018	2017
Balance unspent at beginning of year	-	677,387
Other	-	(677,387)
	-	-

Financial Management Grant

	2018	2017
Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	-	-

Figures in Rand	2018	2017

28. Government grants and subsidies (continued)

Skills Development Grant

Balance unspent at beginning of year	3,683,701	3,789,614
Conditions met - transferred to revenue	(612,900)	(105,300)
Other	-	(613)
	3,070,801	3,683,701

Expanded Works Programme Incentive

Current-year receipts	4,166,000	3,173,000
Conditions met - transferred to revenue	(4,166,000)	(3,173,000)
	-	-

Environmental Management Framework

Balance unspent at beginning of year	502,871	502,871

Neighbourhood Development Partnership

Balance unspent at beginning of year	709,291	-
Current-year receipts	34,767,000	28,323,000
Conditions met - transferred to revenue	(22,648,494)	(27,613,709)
Funds surrended to National Treasury	(709,000)	-
	12,118,797	709,291

Electrification Grant

Balance unspent at beginning of year	650,918	-
Current-year receipts	9,000,000	8,000,000
Conditions met - transferred to revenue	(9,650,918)	(7,349,082)
	-	650,918

Water Services Operating & Masification Subsidies

Current-year receipts	11,000,000	-

I.T - Tirelo Bosha Project

Balance unspent at beginning of year	850,000	-
Current-year receipts	-	850,000
Conditions met - transferred to revenue	(850,000)	-
	-	850,000

Madadeni library internet project

Balance unspent at beginning of year	-	23,811
Current-year receipts	188,000	179,000
Conditions met - transferred to revenue	(188,000)	(202,811)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Government grants and subsidies (continued)

Municipal Water Infrastructure Grant

Current-year receipts	45,000,000	40,613,000
Conditions met - transferred to revenue	(45,000,000)	(40,613,000)
	-	-

Osizweni Library internet project

Balance unspent at beginning of year	-	25,288
Current-year receipts	188,000	179,000
Conditions met - transferred to revenue	(188,000)	(204,288)
	-	-

Provincialisation- All Libraries

Balance unspent at beginning of year	22,452,928	7,297,748
Current-year receipts	5,923,000	21,120,000
Conditions met - transferred to revenue	(14,733,163)	(5,964,820)
	13,642,765	22,452,928

Capacity Building housing

Balance unspent at beginning of year	6,693,870	12,684,970
Current-year receipts	6,916,740	-
Conditions met - transferred to revenue	(5,195,944)	(5,991,100)
	8,414,666	6,693,870

Osizweni arts centre

Balance unspent at beginning of year	36,920	36,920

Corridor development

Balance unspent at beginning of year	131,075	135,244
Current-year receipts	-	16,906,337
Conditions met - transferred to revenue	-	(16,910,506)
	131,075	131,075

Cleanest town

Balance unspent at beginning of year	823,975	823,975

Newcastle Library Internet Project

Balance unspent at beginning of year	-	16,818
Current-year receipts	188,000	179,000
Conditions met - transferred to revenue	(188,000)	(195,818)
	-	-

Figures in Rand	2018	2017

28. Government grants and subsidies (continued)

Sport and Recreation

Current-year receipts	889,500	-
Conditions met - transferred to revenue	(880,739)	-
	8,761	-

Ingogo Fresh Produce

Balance unspent at beginning of year	11,353	1,102,917
Conditions met - transferred to revenue	-	(1,091,564)
	11,353	11,353

Carnegie Art Gallery

Balance unspent at beginning of year	169,703	647,633
Current-year receipts	200,000	44,750
Conditions met - transferred to revenue	(89,832)	(522,680)
	279,871	169,703

Fort Amiel Museum

Balance unspent at beginning of year	300,026	10,776
Current-year receipts	150,000	289,250
Conditions met - transferred to revenue	(257,158)	-
	192,868	300,026

Other grants (Housing grants)

Balance unspent at beginning of year	4,266,813	1,093,885
Other	-	3,172,928
	4,266,813	4,266,813

Newcastle Airport

Balance unspent at beginning of year	272,567	366,207
Current-year receipts	19,075,985	-
Conditions met - transferred to revenue	(17,533,271)	(93,640)
	1,815,281	272,567

Figures in Rand	2018	2017

29. Employee related costs

Basic	317,759,055	292,340,391
Medical aid - company contributions	18,750,743	17,644,241
UIF	2,509,361	2,529,882
WCA	-	5,980,951
SDL	4,321,591	4,046,125
Leave bonus paid	36,003,407	21,161,990
Defined contribution plans	67,548,299	52,286,382
Travel, motor car, accommodation, subsistence and other allowances	4,516,952	3,966,164
Overtime payments	53,816,678	48,301,248
Long-service awards	-	2,379,843
Transport allowance	23,706,939	21,947,465
Housing benefits and allowances	8,368,817	8,535,238
Group insurance	5,127,686	4,248,411
Bargaining council	142,903	133,976
Night work allowance	1,742,398	1,584,101
Leave pay provision	20,208,466	8,671,259
	564,523,295	495,757,667

Remuneration of the Municipal Manager

Annual Remuneration	1,497,805	1,384,831
Car Allowance	126,933	132,284
Contributions to UIF, Medical and Pension Funds	261,054	223,032
	1,885,792	1,740,147

Remuneration of the Chief Finance Officer

Annual Remuneration	450,731	-
Car Allowance	83,333	-
Contributions to UIF, Medical and Pension Funds	30,144	-
Other benefits	34,339	-
	598,547	-

Figures in Rand	2018	2017

29. Employee related costs (continued)

Remuneration of Executive Directors

Annual Remuneration	3,784,568	3,835,156
Car Allowance	334,253	475,875
Contributions to UIF, Medical and Pension Funds	387,448	162,682
Housing allowances	-	22,853
Other benefits	282,221	355,090
Leave paid and other benefits	253,070	106,222
	5,041,560	**4,957,878**

Community Services

Annual Remuneration	-	764,021
Car Allowance	-	269,127
Contributions to UIF, Medical and Pension Funds	-	19,488
Leave paid	-	109,582
	-	**1,162,218**

Development and Planning Services

Annual Remuneration	1,053,542	1,038,970
Car Allowance	140,219	96,564
Contributions to UIF, Medical and Pension Funds	42,240	82,313
	1,236,001	**1,217,847**

Electricity Services

Annual Remuneration	119,877	1,038,763
Car Allowance	-	355,074
Contributions to UIF, Medical and Pension Funds	149	-
	120,026	**1,393,837**

Internal Audit

Annual Remuneration	931,442	993,401
Car Allowance	115,169	87,736
Contributions to UIF, Medical and Pension Funds	154,585	102,839
	1,201,196	**1,183,976**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Remuneration of councillors

Mayor	859,083	838,890
Deputy Mayor	707,466	676,796
Executive Committee Members	3,164,570	3,580,718
Speaker	707,377	668,449
Councillors	17,710,767	14,623,908
	23,149,263	20,388,761

Mayor

Annual remuneration	631,520	576,937
Car allowances	186,763	208,348
Cellphone allowances	40,800	23,322
Contribution to UIF, medical aid and pension	-	26,864
Housing allowances	-	3,419
	859,083	838,890

Deputy Mayor

Annula remuneration	439,103	409,298
Car allowances	162,527	175,220
Cellphone allowances	40,800	24,751
Contribution to UIF, medical aid and pension	65,035	64,107
Housing allowances	-	3,419
	707,465	676,795

Speaker

Annual remuneration	439,014	412,385
Car allowances	162,527	162,368
Cellphone allowances	40,800	23,322
Contribution to UIF, medical aid and pension	65,035	66,956
Housing allowances	-	3,419
	707,376	668,450

Chief Whip

Annual remuneration	270,184	225,271
Car allowances	103,571	86,354
Cellphone allowances	40,800	23,322
Contribution to UIF, medical aid and pension	44,136	36,658
	458,691	371,605

31. Depreciation and amortisation

Property, plant and equipment	449,661,715	472,110,422

32. Impairment of assets

Impairments

Fines	4,095,007	1,348,277

33. Finance costs

Non-current borrowings	31,999,938	50,647,784
Provisions and current borrowings	12,543,058	14,051,002
Other interest paid	4,528,621	1,084,764
	49,071,617	65,783,550

Figures in Rand	2018	2017

34. Debt impairment

Debt impairment	106,552,137	69,517,589
Indigents written off	28,756,060	30,786,341
Bad debts written off - Incentives	2,289,241	-
	137,597,438	**100,303,930**

35. Bulk purchases

Electricity	449,143,199	493,594,236
Water	91,859,421	65,351,503
	541,002,620	**558,945,739**

36. Contracted services

Security services	25,907,783	21,075,726
Consultants fees	35,378,442	41,499,180
Other Contractors	29,288,205	6,673,188
	90,574,430	**69,248,094**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. General expenses

Advertising	1,324,574	947,236
Assessment rates & municipal charges	1,841,474	1,097,919
Auditors remuneration	3,734,763	3,881,050
Bank charges	3,863,454	3,416,814
Legal fees	2,209,156	2,063,509
Donations	2,345	-
Entertainment	401,767	272,533
Hire	30,563,175	27,100,814
Insurance	5,537,111	3,265,313
Community development and training	13,893,883	20,886,003
IT expenses	8,659,480	4,598,379
Magazines, books and periodicals	288,325	819,993
Medical expenses	6,790	20,779
Motor vehicle expenses	22,607,437	17,610,572
Subsistence and Travelling	2,649,308	1,096,956
Petrol, Oil and Grease	847,043	890,263
Postage and courier	3,201,402	2,619,415
Printing and stationery	3,212,479	3,415,936
Promotions	40,299	130,395
Protective clothing	4,695,899	4,539,030
Repairs and maintenance	109,000,466	90,913,790
Royalties and license fees	151,201	168,842
Compensation fund	-	40,040
Membership fees	5,572,972	5,576,981
Telephone and fax	15,074,631	9,146,593
Training	9,644,958	6,000,065
Refuse	4,457,784	4,588,791
Tools	178,937	175,423
Lease Rentals on Operating lease	3,081,352	4,431,876
Other expenses	15,025,931	30,867,501
Administration expenses	32,449,102	36,839,538
Contribution to post retirement benefits	6,876,879	6,844,303
Material	6,884,376	5,145,085
Loss on sale of assets	33,275	-
Signage	548,514	422,624
Chemicals	325,084	302,956
	318,885,626	**300,137,317**

38. Auditors' remuneration

Fees	3,575,312	3,623,266
Audit Committe	159,451	257,784
	3,734,763	**3,881,050**

Figures in Rand	2018	2017

39. Cash generated from operations

Deficit	(379.606.215)	(294,282.230)
Adjustments for:		
Depreciation and amortisation	449.661.715	472.110.422
Fair value adjustment and Share of deficit	11.917,493	(48.078.023)
Gain on Actuarial Valuation	-	(3,559.453)
Loss on Actuarial Valuations	5.793,705	-
Impairment of assets	4,095.007	1.348,277
Debt impairment	137,597,437	100.303.930
Movements in provisions	18.895,434	8,533.831
Changes in working capital:		
Inventories	2,822.485	(1.842,962)
Receivables from exchange transactions	(25,244.126)	(10.312,955)
Consumer debtors	(220.710.654)	(105,173.240)
Other receivables from non-exchange transactions	(1.170,953)	(976,605)
Other financial assets	2,171	2,131
Payables from exchange transactions	209.807,696	91,742,909
VAT	(614.920)	13,143,536
Unspent conditional grants and receipts	14,760,804	9.147,019
Consumer deposits	4.632,285	1,581,633
	232,639,364	233,688,220

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure assets	166,499,964	81,491,523
• Community assets	9.945.607	540,000
• Land and buildings	-	14,952.398
• Other assets	4.852,636	3,112,633
	181,298,207	100,096,554

Not yet contracted for and authorised by accounting officer		
• Infrastructure assets	-	16,201,537
• Land and buildings	-	3.432,661
• Other assets	-	1,628.646
	-	21,262,844

Total capital commitments		
Already contracted for but not provided for	181.298.207	100,096,554
Not yet contracted for and authorised by accounting officer	-	21,262,844
	181,298,207	121,359,398

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	566,940	658,188
- in second to fifth year inclusive	578,017	157,744
	1,144,957	815,932

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

41. Contingencies

Plaintiff: Evnic Data CC
There is litigation process against the municipality relating to the dispute with Evnic Data CC, who is seeking damages of R23 million for the loss of profit. The allegations are that there was an irregular awarding of tender to another bidder due to unfair evaluation and awarding. Parties to convene pretrial.

Plaintiff: Singatha Africa Joint Venture
Singatha Africa Joint Venture is seeking damages of R2 333 755 for loss of profit relating to a dispute of breach of contract. They allege that they were engaged as a Project Manager for housing project but the contract was cancelled. Awaiting trial date.

Plaintiff: ADZ Construction CC
There is a litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking damages of R 1 245 491 for breach of contract It alleges that the contract was unlawfully terminated. Litigation to proceed.

Plaintiff: Clover SA (Proprietary) Limited
Clover SA (Propriety) Limited is suing the municipality for damages of R39 100 to its vehicle caused by the underground water leaks on the road surface. The matter is still under investigations.

Plaintiff: Pragashini Dhewlall
There is a litigation process against the municipality relating to the dispute with Pragashini Dhewlall, who is claiming damages for medical expenses of R400 000. He sustained injury after tripping on a metal pipes placed by municipal employees.

Plaintiff: Telkom SA SOC LTD
There is a litigation process against the municipality relating to a dispute with Telkom SA, who has sent a letter of demand for the damage to telecommunication infrastructure of Telkom at vicinity of Ayliff Street between Patterson and York Street. Should the Telkom be successful the municipality will be liable to pay damages of R165 423.88 and legal fees.

Plaintiff: Bigen Services Africa (Pty) LTD
Bigen Services Africa (Pty) LTD is the former service provider in the Municipality. Bigen Services Africa (Pty) LTD had objected to the Municipality, this matter follows an unsuccessful bid application for debt management. The matter will be finanlised once payment of R120 000 is paid to Bigen Services.

Plaintiff: Matilda Plumbing & Projects CC
There is a litigation process against the municipality relating to a dispute with Matilda Plumbing and Projects CC. The estimated costs of the legal cost is R200 000

Plaintiff: SJ Zulu
There is a litigation process against the municipality relating to a dispute with SJ Zulu. SJ Zulu has lodged an application to cease excavation and construction of sewerage pumpstation project initiated by the municipality. The case is in the High court and the estimated cost is R20million and R75 000 of legal costs

Plaintiff: Rusha Peterson
There is a litigation process against the municipality relating to a dispute with Rusha Peterson where has allegations that the municipality was negligent, leaving the storm water drainage pipes open in the public palce that was accessible to children. Her child was injured and is claiming damages of R400 000

Plaintiff: Chapps Construction
There is a litigation against the municipality where as Chapps Construction has an arbitration against the municiaplite that relates to the chalages on additional work rended by Chapps without proper manadate on extension of Allen street project. Estimated legal fees of R150 000

Plaintiff: Sibiya (Ingogo Fresh Produced)
There is a litigation process against the municipality relating to a dispute with Mr Sibiya whereas there was an agreement between the municipality and Mr Sibiya to pay the rental of R1500 per month on the portion of land belonging to Mr Sibiya. Mr Sibiya now demands R30 000 instead of R1500. Estimated legal costs are R150 000 EXCO authorised that the matter be handled by COGTA.

Plaintiff: VP Chetty/Amandla Construction
There is a litigation process against the municipality relating to a dispute with Amandla Construction. Allegations of breach of Contract. Amount sued is R238 609 and estimated legal costs are R50 000.

Plaintiff: Minister of Water Affairs
The Minister of Water Affairs is sueing the municipality for services of water renderedfor the periode April 2002 to 31 August 2016. An arrangement has been made to pay this in instalments of 3 years. Amount sued for is R35 906 412.22 and estimated legal costs are R50 000

Insurance Claim from Third Parties Public Liability
Sandile Mkhize for Motorvehicle claim. Sued amount R96 522.77 and estimated legal cost R25 000
Typhoon Fibers for Property damage due to employee negligence.Sued amont is R438 266 and legal cost of R50 000
Webster Nkosi for Motervehicle claim. Sued amount R41 861.70 and estimated legal costs are R15 000.

41. Contingencies (continued)

Alistair Kevin vn Wyk for Personal injuries. Sued amount R 6 000 000 and estimated legal costs R150 000
Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R30 000
Olivia Sizani Nzimande for Motorvehicle claim. Sued amount R109 550 and estimated legal costs R30 000
Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R30 000
Vishal Heeralal for Personal injuries claim. Sued amount R1 050 000 and estimated legal costs R150 000
Nicole Adele Pillay for Motorvehicle damage claim. Sued amount is R101 327 and legal costs of R30 000
Chemile Dlabehlezi Dladla for Personal injuries. Sued amount is R6 000 000 and legal costs of R250 000.

Labour reviews and Bargaining Council

Miss Nxumalo has sued the municipality for R89 625 and R150 000 legal cost. She alleged that she was unfairly dismissed. Labour court is reviewing the application.

Mr. Ngwenya is suing the municipality for an unfair labour practice. Labour court review is pending. Estimated legal costs are R150 000

Mr. Mofokeng has sued the municipality R110 000 for an unfair dismissal. Awaiting ruling on leave to appeal. Estimated legal costs are R50 000

PZ Sithole is suing the municipality for unfair suspension. The estimated cost that the municipality will have to pay is R196 102.09 which is the salary for 3 months.

NN Zwane is suing the municipality on unfair dismissal. Estimated financial costs for reinstatement is R 114 074.83 pa.

DS Mazibuko is suing the municipality for unfair labour practice. Estimated financial costs for reinstatement is R76 699.32 pa.

Notes to the Annual Financial Statements

Figures in Rand		2018	2017

42. Related parties

Relationships

Associates	Refer to note 7		

Related party balances

Investment in Associates		
Uthukela Water Pty LTD	(26,076,953)	(34,573,222)
Bulk Water		
Uthukela Water Pty LTD	78,804,850	64,224,044

Related party transactions

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Remuneration of management

Councillors

2018

Name	Basic salary	Pension Contribution	Medical Aid Contribution	Motor Vehicle Allowance	Cellphone and Other Allowances	Housing Allowance	Total
Executive Committee members	3,700,012	360,345	68,328	1,433,465	712,072	293,040	6,567,262
Other Councillors	8,941,177	1,147,782	21,440	3,547,785	2,563,702	710,920	16,932,806
	12,641,189	**1,508,127**	**89,768**	**4,981,250**	**3,275,774**	**1,003,960**	**23,500,068**

43. Prior period errors

Property, plant and equipment

1. Unbundling of Stormwater Assets
   The unbundling of stormwater assets required to review of useful lifes per components, the impact is as follows.
   Accumulated Depreciation Stormwater R33 411 067
2. Capitalisation of prior year projects
   This relate to Rural Electrification project in WIP transfered to operational expenditure
   WIP Infrastructure (R44 528 722)
   Depreciation (R1 585 182)

44. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:
Income Statement

	2016/17 AFS	2017/18	Diff	Comments
Service Charges	948 273 262	944 304 232	3 969 030	Service Connections mapped in other revenue
Sundry Revenue	3 647 339	7 774 422.00	-4 127 083	Services connections remapped from service charges
Other Revenue	7 854 510	7 696 457.00	158 053	Services connections remapped from service charges
Effect				
Repairs and Maintanance	85 654 025	-	85 654 025	Moving Repairs to general expenses as per MSCOA requirement
Contracted Services	61 245 745	69 248 094.00	-8 002 349	Remapping other general expens balance to contracted services
General Expenses	222 485 641	300 137 317.00	-77 651 676	

45. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

46. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business over the next 12 months.

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated deficit of R333million and that the municipality's Cash and Cash Equivalent is R 57.4million which is not adequate to cover the current liabilities of the municipality. Although the current assets exceed current liabilities, however the collection rate poses a risk inthe confidence that all outstanding debtors will be collected. Over the next twelve months, the municipality is committed to ensre that expenditure is kept within the funded and approved budget.

Figures in Rand	2018	2017

47. Events after the reporting date

There are no events .

48. Unauthorised expenditure

Opening Balance	(793,827,005)	(673,829,662)
Budget expenditure	2,114,842,951	1,972,828,585
Actual expenditure	(2,186,012,643)	(2,092,825,928)
	(864,996,697)	**(793,827,005)**

The municipality incurred unauthorised expenditure of R71.1 million in 2017/18 financial year, totalling R864.9 million inclusive of prior years. This mainly due to overexpenditure in employee costs, contracted services and general expenses. Unauthorised expenditure on emloyee costs is attributable to of overtime, pension fund contributions as well as the acting allowances. Unauthorised expenditure on general expenses relates to machinery and plant hire for emergency water and sanitation services. Unauthorised expenditure on contracted services relates to security services due to the new contract. The process of investigating unauthorised expenditure of R793.8 relating to prior years in currently underway as required by S32 of the MFMA.

49. Fruitless and wasteful expenditure

Opening balance	1,501,467	418,515
Eskom overdue interest	3,451,269	1,082,952
SARS late payments	3,936,514	-
DBSA Bank	584,101	-
Ithala bank	1,592	-
	9,474,943	**1,501,467**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

50. Irregular expenditure

	2018	2017
Opening balance	187,643,508	139,656,574
Add: Irregular Expenditure - current year	6,797,032	47,986,934
	194,440,540	**187,643,508**

Payments made on expired contracts

Central Brigde Trading	134,677
Simamane Construction	1,764,664
Jenny Internet	78,174
The Image House	230,000
Sizisa Ukhanyo Trading 471	625,285
Ndimba Transportation	852,960
Scammony	1,191,141
SS Masondo	1,708,263
TJ Mphela Attorneys	165,432
DBM Attorneys	769,115
Inside Data	823,606
Klus Civils	15,035,717
MI7 Security Intelligency	953,496
SYnapsis Software	527,129
	24,859,659

Awards to close family members of persons in service of the institution

	-

Payments made to contracts where SCM procedures were not followed

Martiq 282 CC t/a Tap Plumbing	397,233
Kenyon Security	616,584
Sizabonke Civils t/a Pilcon Project	8,569,376
Kuntwela Enzansi Ventures	3,466,443
Bidwin	1,698,334
Gladmod Transport and Projects	3,001,500
Khinci Investment	19,656
Megaphase Road Marking	138,791
Senzangakhona Industrial Suppliers	275,515
Shantis Electrical	6,917,854
Royal Pelican Bed and Breakfast	19,800
Bonanmazansi Game Reserve	44,640
Umqhele Bed and Breakfast	57,200
BBC Projects and Fencing JV Silimasonke Civil Engineering CC	732,029
Sandman Sizazonke	609,670
Ilitha Lesizwe Consulting Pty LTD	2,737,688
Mlokothwa Construction and Management	1,480,659
Pawacons (Pty) LTD	629,897
Urban and Rural Construction	4,974,730
Pangaea Expertise and Solutions	47,150
Setheo Engineering	5,859,226
SA Fence and Gate	805,720
	43,099,695

Contracts awarded to employees in service of the state

Schindller Lifts SA Pty LTD - Mathuthukana Makoko	10,958

Figures in Rand	2018	2017

50. Irregular expenditure (continued)

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	5,283,317	4,651,860
Amount paid - current year	(5,283,317)	(4,651,860)
	-	-

Audit fees

Opening balance	-	170,165
Current year subscription / fee	3,577,235	3,733,544
Amount paid - current year	(3,562,487)	(3,903,709)
	14,748	-

PAYE and UIF

Current year subscription / fee	80,268,828	72,134,883
Amount paid - current year	(80,268,828)	(72,134,883)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	111,640,778	109,856,063
Amount paid - current year	(111,640,778)	(109,856,063)
	-	-

VAT

VAT payable	1,775,605	2,390,525

Figures in Rand	2018	2017

51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr EK Nkosi	4,129	-	4,129
Cllr NY Mbatha	3,537	-	3,537
Cllr NY Mahlubi	2,219	-	2,219
Cllr M Shunmugam	1,268	-	1,268
Cllr GMB Thwala	1,062	-	1,062
Cllr MS&MG Mlangeni	-	8,772	8,772
Cllr MS Mlangeni	-	15,665	15,665
Cllr MV Buhali	-	4,708	4,708
	12,215	29,145	41,360

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr MV Buhali	321	12,182	12,503
Cllr AA Coka	14	12,823	12,837
Cllr NY Mahlubi	2,330	-	2,330
Cllr NY Mbatha	2,986	-	2,986
Cllr MS&MG Mlangeni	763	8,018	8,781
Cllr MS Mlangeni	2,016	13,964	15,980
Cllr VP Nzima	710	534	1,244
Cllr EM Nkosi	1,546	-	1,546
Cllr MP Sibilwane	575	-	575
Cllr GMB Thwala	1,390	-	1,390
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	-	193	193
Cllr TM&NM Zulu	1,902	-	1,902
	14,553	47,828	62,381

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations	2018	2017
Section 16	11,443	61,776
Section 17	291,060	112,396
Section 36	3,804,177	4,210,272
	4,106,680	4,384,444

53. Water distribution losses

Input Volume (Kl)	29 464 592	28 284 229
Sales		
Water losses (Kl)	14 404 514	12 499 598
Water losses (%)	48.9%	44.2%
Bulk Tariff (R/KL)	R2.56	R2.56
Water Losses (R)	R36 875 555	R31 998 970

Water distribution losses comprises of the following:
Physical / Real losses
Leaking from transmission and distribution mains (leaks and burst pipes) as well as leaking on services connections up to the customer's meter were noted as physical losses

Commercial / apparent losses
Unauthorised consumptions consisting of illegal connections. meter bypass and illegal uses of fire hydrant were noted as apparent losses. futhermore customer meter inaccuracy due to old meter and intermittent water supply were also reason for the losses. Human error from manual reading and capturing of data resulted in meter reading errors, data handling and accounting errors

54. Electricity distribution losses

Purchases (KWH)	624 146 150	699 795 153
Less: Sales	598 153 549	(675 207 653)
Loss of units	25 992 601	24 587 499
Loss of units (%)	4.16%	3.51%
Estimated cost per unit - Cents	R0.59	R0.59
Estimated cost of loss (R)	R15 335 635	R14 506 624

Electricity distribution losses comprised of the following:

Admistrative losses
Admistrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. Administrative losses are minimal as the municiaplality ensures that the cut-offs are effected on all unpaid accounts.

Technical Losses
Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lightning and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600KWh per anum which equates to approximately 8% (3 600 000kWh) of electricity losses.

Non-technical losses
Non-technical losses refers to unrecorded electricity delivery. illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.